

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 ISO-00 EUR-03 TRSE-00 CEA-01 FRB-03

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TO SECSTATE WASHDC IMMEDIATE 9414

S E C R E T SECTION 1 OF 2 LISBON 8374

LIMDIS

DEPT. PASS TREASURY FOR UNDER SECRETARY YEO, WIDMAN, SYVRUD
AND WILLIS

E.O. 11652: GDS

TAGS: EAID, PO, ECON

SUBJECT: FINANCIAL ASSISTANCE PROGRAM FOR PORTUGAL

REFS: A) LISBON 8306, B) LISBON 8308, C) LISBON 8335

SUMMARY. RECENT DISCUSSIONS HAVE CLEARLY INDICATED PORTUGUESE ATTITUDES TOWARD PROPOSED USG LOAN PROGRAM. GOP, EVIDENTLY PLEASED BY U.S. EFFORTS TO BE HELPFUL, SEEMS TO HAVE DECIDED DEFINITELY TO SEEK CONCLUSION OF AGREEMENT, EVEN IF IT DISLIKES SOME OF THE CONDITIONS ATTACHED THERETO. PRINCIPAL GOP CONCERNS ARE COMPOSITION OF PROPOSED ESF LOAN, ROLE OF PORTUGUESE NATIONAL ASSEMBLY, PROCEDURE FOR IMF PARTICIPATION, PRESENTATION OF WRITTEN GOP POLICY STATEMENT, AND SPEED WITH WHICH LOANS PROPOSAL CAN BE IMPLEMENTED. ALTHOUGH THESE CONCERNS WILL AFFECT ACTIONS OF GOP DELEGATION IN WASHINGTON, THAT DELEGATION'S OVERWHELMING PRIORITY OBJECTIVE WILL BE TO CONCLUDE AN AGREEMENT. END SUMMARY.

1. SECRETARY RICHARDSON AND I DISCUSSED REF SUBJECT EXTENSIVELY WITH MINISTER OF FINANCE MEDINA CARREIRA ON FRIDAY, DECEMBER 3. (SEPTTEL CONTAINS FULL REPORT OF MEETING.) THAT SESSION AND THOSE OF EARLIER THIS WEEK

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HAVE CLEARLY INDICATED GOP ATTITUDES TOWARD PROPOSED

USG LOAN PROGRAM. I AM SENDING THIS SYNTHESIZED STATEMENT OF GOP VIEWS IN THE HOPE THAT IT WILL BE HELPFUL TO USG OFFICIALS WHO WILL DEAL WITH THE PORTUGUESE DELEGATION IN WASHINGTON.

2. GOP FAVORABLY IMPRESSED: FIRST OF ALL, IT SHOULD BE STRESSED THAT PORTUGUESE OFFICIALS ARE EXTREMELY PLEASED WITH EVIDENT USG ATTEMPT TO BE RESPONSIVE TO THEIR REQUESTS. THEY INTERPRET THIS ATTEMPT AS A SIGN OF U.S. POLITICAL AND MORAL SUPPORT FOR THE ESTABLISHMENT OF A DEMOCRATIC REGIME IN PORTUGAL. THEY VIEW THE PROPOSED LOAN PROGRAM AS THE ONLY AVAILABLE MEANS OF OBTAINING SUFFICIENT EXTERNAL LIQUIDITY TO AVOID AN IMMEDIATE DRASTIC REDUCTION IN CONSUMPTION, A REDUCTION THAT WOULD NOT ONLY DAMAGE THE SOCIALIST PARTY'S POLITICAL POSITION VIS A VIS THE COMMUNISTS, BUT ALSO SERIOUSLY JEOPARDIZE THE POSSIBILITY OF ERECTING A DEMOCRATIC SYSTEM. IN EFFECT, GOP FEELS IT HAS VIRTUALLY NO CHOICE BUT TO ACCEPT PROPOSED USG LOAN PROGRAM, EVEN IF IT DISAGREES WITH SOME OF THE CONDITIONS AND PROCEDURES ATTACHED THERETO. ITS OVERWHELMING FIRST PRIORITY DURING WASHINGTON DISCUSSIONS WILL, THEREFORE, BE TO CONCLUDE LOAN AGREEMENT AND, SECONDARILY, TO MINIMIZE THOSE CONDITIONS DISLIKES.

3. COMPOSITION OF ESF LOAN: DESPITE GOP PREDISPOSITION TO ACHIEVE LOAN AGREEMENT, FIVE POINTS SERIOUSLY PREOCCUPY IT. MOST IMPORTANT BY FAR IS COMPOSITION OF SHORT-TERM ESF CREDIT. GOP OFFICIALS, FROM PRESIDENT EANEZ DOWN TO BANK OF PORTUGAL GOVERNOR SILVA LOPES, BELIEVE THAT AN ESF LOAN COMPRISED SOLELY OF GOLD WOULD BE OF LITTLE ASSISTANCE. IT WOULD NOT SATISFY PORTUGAL'S URGENT NEEDS FOR EXTERNAL LIQUIDITY. GOP FEELS OF U.S. GOLD PRESENT TWO PROBLEMS: FIRST, PORTUGUESE PUBLIC WOULD NOT APPRECIATE FINE DISTINCTION BETWEEN SALES OF U.S. AND PORTUGUESE GOLD, OR EVEN THE NEED FOR SUCH SALES IF USG PROVIDES SUBSTANTIAL LOAN PACKAGE. SECOND, PORTUGUESE OFFICIALS GENERALLY FEAR THAT ANY GOP GOLD OPERATIONS WOULD NEGATE ITS EFFORTS TO OBTAIN PRIVATE BANK LOANS. ALTHOUGH PRIVATE BANKERS ARE NOT INSISTING ON NEGATIVE GOLD PLEDGE, THEY ARE EXTREMELY NERVOUS (AS

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SHOWN BY MORGAN GUARANTY REPRESENTATIVE THIS WEEK) ABOUT ANY GOP GOLD SALES. APPARENTLY QUESTION DOES NOT EVOLVE AROUND RATE OF INTEREST GOP MUST PAY FOR PRIVATE LOAN, BUT WHETHER BANKERS WILL OR WILL NOT BE WILLING TO LEND, REGARDLESS OF THE INTEREST RATE. THUS PORTUGAL STRONGLY URGES THAT ESF LOAN BE COMPRISED OF BOTH GOLD AND FOREIGN EXCHANGE. GOP WOULD THEN BE ABLE TO DRAW DOWN THE EXCHANGE, HOLD THE GOLD IN RESERVE, AND GENERATE

SUFFICIENT CONFIDENCE ABROAD TO OBTAIN PRIVATE BANK CREDIT.

4. ROLE OF PORTUGUESE NATIONAL ASSEMBLY: SECOND CONCERN IS EVENTUAL DISCUSSION OF LOAN PROGRAM IN PORTUGUESE NATIONAL ASSEMBLY, AND THE DELAYS AND DEMAGOGUERY THIS WOULD ENTAIL ON THE EVE OF AN ELECTION. GOP WOULD LIKE TO AVOID BEING FORCED TO SEEK ASSEMBLY APPROVAL OF THE FIRST STAGE OF THE LOAN, ALTHOUGH IT RECOGNIZES THAT IT CANNOT AVOID EXTENSIVE ASSEMBLY DISCUSSIONS OF THE LOAN PACKAGE. IT WILL, THEREFORE, WEEK AN AGREEMENT PROCEDURE THAT PERMITS THE BANK OF PORTUGAL, RATHER THAN THE FINANCE MINISTRY, TO ASSUME DIRECT RESPONSIBILITY FOR THE CREDIT. OUR LEGAL REQUIREMENTS MAY NOT PERMIT US TO SATISFY PORTUGUESE COMPLETELY ON THIS ISSUE, BUT WE MUST BE SENSITIVE TO GOP POLITICAL/PUBLIC RELATIONS NEEDS IN PRESENTING LOAN PROGRAM, AND PARTICULARLY ANY ASPECT DEALING WITH GOLD.

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S E C R E T SECTION 2 OF 2 LISBON 8374

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DEPT. PASS TREASURY FOR UNDER SECRETARY YEO, WIDMAN, SYVRUD AND WILLIS

5. ROLE OF IMF: THIRD, GOP HAS DEMONSTRATED INCREASING DESPOSITION TO WORK CLOSELY WITH IMF. IT EVIDENTLY RECOGNIZES THAT IMF COOPERATION IS INDISPENSABLE FOR ITS CREDIBILITY WITH BOTH OTHER GOVERNMENTS AND THE PRIVATE SECTOR. PORTUGUESE OFFICIALS ACCEPT A CENTRAL

ROLE FOR IMF IN SECOND PART OF LOAN PROGRAM, BOTH AS PRINCIPAL NEGOTIATOR FOR LENDING CONSORTIUM, AND AS MONITOR OF GOP ECONOMIC POLICY. THEY DEFINITELY PREFER, HOWEVER, THAT IMF FULFILL THIS FUNCTION THROUGH FREQUENT VISITS TO PORTUGAL, RATHER THAN BY PLACING A RESIDENT REPRESENTATIVE IN LISBON. I FEEL WE SHOULD ACCEPT THIS PROCEDURE, ESPECIALLY DURING 1977. CHANGING ECONOMIC/ POLITICAL ATMOSPHERE MAY, HOWEVER, MAKE APPOINTMENT OF PERMANENT IMF REP IN LISBON POSSIBLE BY 1978.

6. WRITTEN POLICY STATEMENT: FOURTH, GOP IS SOMEWHAT RELUCTANT TO PRESENT A WRITTEN STATEMENT: FOURTH, GOP IS SOMEWHAT RELUCTANT TO PRESENT A WRITTEN STATEMENT OF ITS ECONOMIC POLICIES. THIS RELUCTANCE APPARENTLY STEMS NOT SO MUCH FROM AN UNWILLINGNESS TO IMPLEMENT APPROPRIATE POLICIES, AS FROM ITS FEARS THAT SUCH A DOCUMENT, WHEN IT SUBSEQUENTLY SURFACES IN THE PUBLIC PRESS, WILL BE USED DOMESTICALLY TO ATTACK IT. I AGREE THAT A WRITTEN
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STATEMENT OF POLICY INTENTIONS WOULD BE HELPFUL TO OUR FURTHER DISCUSSIONS WITH CONGRESS AND POTENTIAL CONSORTIUM MEMBERS, AND WOULD PROMOTE GREATER GOP FOCUS ON POLICY ISSUES. THIS STATEMENT MUST, HOWEVER, BE PHRASED CAREFULLY TO AVOID AN IMPLICATION THAT WE ARE IMPOSING ECONOMIC POLICIES IN RETURN FOR THE LOAN PACKAGE. SUCH A WRITTEN STATEMENT, MOREOVER, SHOULD NOT BE INCLUDED AS AN INTEGRAL PART OF THE FINAL OFFICIAL LOAN DOCUMENT.

7. NEED FOR PROMPT ACTION: FINALLY, GOP IS EXTREMELY ANXIOUS THAT LOAN AGREEMENT BE CONCLUDED ASAP. IT CLEARLY HOPES TO REACH AGREEMENT ON ESF CREDIT DURING WEEK OF DECEMBER 6-11, BOTH FOR COMPELLING POLITICAL AND ECONOMIC REASONS. ON THE POLITICAL SIDE, AGREEMENT ON THE LOAN WILL AFFECT THE ABILITY OF THE SOCIALISTS AND THE OTHER PRO-WESTERN PARTIES TO STEM A STRONG COMMUNIST EFFORT AT A COMEBACK IN THE DECEMBER 12 MUNICIPAL ELECTIONS. ON THE ECONOMIC SIDE, AN EARLY CONCLUSION OF THE NEGOTIATIONS WOULD EASE ANXIETY OVER DWINDLING RESERVES AND ENABLE GOP TO CONCENTRATE ON FUNDAMENTAL POLICIES. GOP ALSO HOPES THAT THE PROJECTED SUBSEQUENT CONSORTIUM LOAN WOULD PROCEED RAPIDLY ENOUGH TO PERMIT A DRAW-DOWN BY APRIL OR MAY 1977.

8. ON BALANCE, LOAN NEGOTIATIONS HAVE GONE WELL DESPITE THE UNFORTUNATE LEAKS, AND I APPRECIATE WASHINGTON'S COOPERATION AT A TIME WHEN A NUMBER OF OTHER FINANCIAL CRISES HAVE CROPPED UP. WE CAN PROBABLY PUSH THE LOAN TO A CONCLUSION ON OUR ORIGINAL BEAMS IF WE WISH, OR

IF THERE IS NO OTHER ALTERNATIVE, BUT WOULD EARNESTLY
URGETHAT WE MAKE EVERY EFFORT TO EXERCISE THE UNDER-
STANDING AND FLEXIBILITY THAT THE FINANCE MINISTER
SPOKE OF IN HIS CONVERSATION WITH SECRETARY RICHARDSON.
WE ARE STILL DEALING WITH A VERY FRAGILE POLITICAL
STRUCTURE HERE, THE GOP'S CONCERNS ARE NOT WITHOUT
FOUNDATION, AND ONE OF OUR MAJOR GOALS IS TO EXTRACT
THE MAXIMUM POLITICAL AND PSYCHOLOGICAL BENEFITS FROM
THE PROGRAM. EVERY ASPECT OF THE PROGRAM WILL COME
UNDER THE CLOSEST SCRUTINY - NOT TO SAY ATTACK - AND
EVEN SEEMINGLY MINOR DETAILS WILL ASSUME A DISPROPORTIONATE
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POLITICAL IMPORTANCE.
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